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Financial capacity of the public sector to implement the United Nations Millennium Declaration

Report of the Secretariat

Executive summary

The millennium development goals have set quantitative goals for poverty reduction and other aspects of human welfare for developing countries and economies in transition. In the context of globalization, those countries can achieve the goals through governance initiatives; the establishment of institutional ingredients of a self-sustaining market economy; macroeconomic stabilization; significant and sustained improvements in the efficiency, integrity and effectiveness of public sector management; transparency and accountability of corporate and financial governance in the private sector; and proper management practices that enhance the development of human resources for the public services. They will have to face the challenges of improving fiscal discipline, bringing resource allocation in line with development priorities and creating an enabling environment for the development and growth of the private sector through the establishment of appropriate legal and regulatory framework. For that purpose, there is a need for enhanced mobilization of resources through reform of tax systems by increasing the neutrality, simplicity and horizontal equity of the tax system; broadening the tax base; reducing tax-induced distortions; and adopting tax expenditure approaches that minimize the prospects for future fiscal deficits and are consistent with administrative capacities. Public financial management reforms would encompass aggregate fiscal discipline, strategic prioritization for allocative efficiency and equity

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and technical efficiency in the use of budgeted resources. There is a need to avoid unsustainable debt burden through prudent government debt management, with sound policies for dealing with contingent liabilities.

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I. The United Nations Millennium Declaration as a claim on financial resources for development

1. The main objective of the present report is to analyse how the public sector can contribute to maximizing the socio-economic welfare of the population within the context of the United Nations Millennium Declaration, through effective and efficient fiscal policy and public financial management in a predominantly market economy.

2. The last decade of the twentieth century has ushered in the era of the progressive integration of national economies. One of the aspects of that process is the creation of a global trade and capital market that allows unprecedented in volume movements of goods, services and capital. Globalization carries a potential for equally unprecedented economic growth and prosperity. However, its impact on human development and human security has varied considerably, depending mainly on how government institutions are structured, how they mobilize to face the new developmental challenge and what policies they adopt. To the extent that globalization is perceived to be a factor in the worsening income distribution among countries and within countries, it increases the need for governmental intervention or, more appropriately, government participation. At the same time, it reduces government's capacity to intervene due to reduced availability of public financial resources.

3. Although evidence of the quantitative impact of globalization on public revenues is still limited, there are indications that it may actually reduce tax revenues due to increased tax competition among jurisdictions to attract foreign direct investment, exponential growth in electronic commerce, increased mobility of factors of production and the growing importance of offshore and tax havens.

4. At the same time, globalization is creating pressures for increased spending on education, training, research and development, environment, economic and social infrastructures, and on institutional changes primarily to improve efficiency. It may create additional financial requirements for social protection by way of unemployment benefits and retraining costs for unskilled labour facing retrenchment due to the closing down of inefficient domestic industries.

5. It is in that broader context that the financial implications of the United Nations Millennium Declaration must be considered. The Declaration lists eight development goals, with 18 targets and 48 indicators. Most of them require the engagement of substantial amounts of money. Those amounts may not be huge relative to the key financial indicators of the global economy, but within the context of a given country or as compared with the level of current expenditures in a given area they are substantial.

6. The Declaration is therefore also about changing the fiscal policy of Governments and about rethinking international aid flows. Such change and rethinking should broaden the criteria that traditionally prevail, especially in government fiscal decisions, i.e., avoidance of persistent budgetary deficits, avoidance of accumulation of public debt and achieving macroeconomic stability. It is difficult to imagine that such a change and such rethinking can happen without a decisive shift in the values that underpin policy decisions. When such decisions are taken, it makes a critical difference if they are made within the framework of the new developmental paradigm outlined by the Declaration, i.e., if the values that guide policy decisions include the value of freedom rooted in human solidarity for all people everywhere. Thus, speaking about the financial capacity of the public sector to implement the development goals of the United Nations Millennium Declaration, one has to speak first and foremost about the Governments' capacity to cement a political coalition that would stand firmly behind such a new developmental paradigm: a coalition that would support it not in general (globally) but locally, in a given society, in its urban and rural communities, even in the most distant ones.

7. Although fragmentary, sector-specific attempts at calculating the financial implications of the developmental goals of the United Nations Millennium Declaration have been made,[1] it is short of impossible to come up with a realistic bill. And the achievement of some of the development goals as well as some of the goals that do not belong to the development category can and would produce huge savings as well as generate new resources. Such is the likely effect of achieving higher standards of human capabilities through improved education and health care and eradication of poverty. Such is the likely effect of freeing the most affected countries from the scourge of

AIDS. Peace and good governance bring many positive ripple effects throughout society and economy that can be expressed also in financial terms.

8. However, especially in the short run, investments are needed. The task of the implementation of the United Nations Millennium Declaration — the task that has been accepted by heads of State and Government — brings up the need to take one more careful look at how public revenues are spent and how they are generated. Initially, even with the hope with which the International Conference on Financing for Development (Monterrey, March 2002) has ended, it would be unrealistic to expect a dramatic increase in public revenues either from domestic sources or as a result of international transfers. Therefore, improved management of the public budgets to increase the effectiveness of the use of public resources seems like the most realistic hope for more generous financing of Declaration goals. Only with time can new sources of funding be brought to bear on the implementation process. But without increased effectiveness and efficiency of the expenditure process, even that hoped for increase in financial resources may not bring desirable results.

II. Public financial management

9. In recent years, in the context of growth of public spending, considerable attention has been focused on public financial management and the efficiency of the public sector. Techniques have been developed to identify unproductive public spending, or at least public spending that is not justified by the benefits it produces. Getting more value for the money spent has been the basic objective of that exercise. It is now broadly recognized that efficiency in the use of public funds is a powerful tool for enhancing the socio-economic welfare of the population.

10. Public financial management relates to the process of planning; programming and budgeting; budget execution and accounting; and the auditing and evaluation of public resources. Those functions of government aim to ensure that, to the maximum practical extent, public resources — whether generated internally or externally — are utilized in accordance with the law and yield optimum results.

11. Within that context, a central concern for all countries is how to harmonize methods for three linked, though somewhat distinct processes: (a) strategic macroeconomic management and control of aggregate financial variables; (b) changing expenditure priorities; and (c) effective and innovative management of service delivery institutions.

12. If they advance on the path of global economic integration and/or if they adopt an ambitious social agenda — whether aligned with the United Nations Millennium Declaration goals or not — effective and efficient financial management becomes essential, especially in countries where the volume of tax revenues is inelastic. It is incumbent upon such Governments to ensure that whatever resources are mobilized must be managed properly with a view to sustaining economic growth and social development.

13. Efficient and effective financial management has also become increasingly a condition sine qua non for the cooperation of developing countries with donors, in the context of international transfers (official development assistance (ODA)) and in the context of debt relief negotiations. The system and practice of appropriate public financial management gives assurance to donor countries that the resources resulting from their initiatives in those areas would be correctly and prudently used.

14. More than two decades of experimentation with reforms of public financial management have left an impressive number of success stories and a trail of failures. Yet the basic premise behind them has not changed: it matters how public finances are managed. Efficient and effective public financial management is beneficial for national economy: it creates better conditions for competitiveness of the local enterprises; it is also good for social development; it helps to deliver better quality of services; and, if it saves public financial resources, it gives an opportunity for the policy makers to redirect them towards developmental goals.

15. Efficient and effective public financial management does not represent a collection of technical tricks. True, new technical approaches are possible and very often needed. And it is at the level of those technical approaches that many a reform effort has failed. Not all of them are culturally acceptable in different social settings. And too much stress on technical solutions obscures the basic premise that the success of public financial management depends on strengthening the three pillars of good governance,

transparency, accountability and participation, as well as their result — predictability.

16. It must be remembered that such reforms can be achieved in many different ways. But behind any technical approach — imported or home-grown — there must stand firm political will. Without such firm political will, based on a coalition of forces that see value in increased transparency, accountability and participation, the application of new technical approaches is bound to be forced and less than effective. The decision and consensus to increase participation and accountability must precede fiscal decentralization. The decision and consensus to curb corruption must precede relevant improvements in public expenditure management. The decision to curb bureaucratic capture must precede measures to increase expenditure control, strategic resource allocation, good operational management and due process. And, in a changed relationship between the public at large and the government, the consensus to increase accountability must precede measures that stretch the horizon of budgeting beyond the immediate future through a formal multi-year approach, when feasible, or as a minimum, through systematic public reflection and dialogue. When we speak about the financial capacity of Governments, we must include in that category also the willingness and capacity to build political coalitions and generate political momentum for transparency, accountability and participation.

17. All this does not mean that technical solutions do not matter. In too many countries, financial management capabilities have been eroded by the pursuit of financial populism, ineffective and distorted budgetary mechanisms or the breakdown of existing financial management institutions. At the same time, there have been recent reforms in the public sector of both developed and developing countries that warrant serious consideration by government policy makers seeking to increase macroeconomic stability and pursue an ambitious social agenda.

18. Experience shows that most of the common technical weaknesses of public financial management relate to untimely and inaccurate government accounting; budget review processes hampered by lack of relevant information; lack of modern methods of data management; highly routine rules and procedures that stress control; and inadequate training. A separate set of weaknesses relates to financial management of projects funded externally, including lack of knowledge of accountability needs of donors/lenders; difficulties in collecting accounting data; delays in claiming reimbursement from donors/lenders; lack of financial control of in-kind transfers; and difficulty with matching domestic procedures with donors'/lenders' attempts to achieve speedier disbursement of funds.

19. Yet there is a shared understanding of things that seem to work in the area of public financial management. Ideally, financial management should be a continuous process which links planning with budget formulation, budget execution, accounting, programme evaluation and audit. At the national level, fiscal policy-making institutions should effect medium- and long-term investment planning and budgeting. Macroeconomic management should replace short-term crisis management, especially with regard to public debt ceilings and deficit management. Governments should undertake more effective oversight, using performance management standards, supported by regular monitoring and effective audits. All components of the financial management system should be integrated in a smooth flow of information, decisions, appropriations and auditing/evaluation. All parts of the system should cooperate, and strong agency planning, budgeting, cash and debt management, accounting, reporting, auditing and evaluation should complement policy-making at the national level.

20. Consideration of ways of achieving such results brings the discussion to the point of choosing modalities for public financial management, i.e., technical approaches. The ones that have brought the greatest positive results and at the same time were the sources of most spectacular debacles are connected with the new public management revolution. Although a lot has been said about their unique appropriateness for strong democracies with long traditions of civil service and roots in common law, they are out there, have been tested and still cannot be surpassed in results that they achieve by alternative solutions. It can be argued that in many situations, political will and commitment as well as broad consensus for change just might make up for what is missing in political and legal traditions. Commitments accepted in the framework of the United Nations Millennium Declaration can provide the motivation to generate such a political momentum and build helpful political coalitions.

21. Pro memoria, the most prominent new public management technical approaches include:

(a) Shift to greater competition in the public sector: move to term contracts and public tendering procedures since competition is the key to lower costs and better standards;

(b) Greater emphasis on output controls: resource allocation and rewards linked to measured performance;

(c) Explicit standards and measures of performance: definitions of goals, targets, indicators of success — especially for professional services — preferably expressed in quantitative terms and made public;

(d) Stress on private sector style of management practices: greater flexibility in hiring and rewards; greater use of public relations techniques;

(e) Stress on greater discipline and prudence in resource use: cutting direct costs, increasing labour discipline, resisting union demands, limiting "compliance costs" to business;

(f) Break-up of central bureaucracy-wide personnel management;

(g) Disaggregation of units in the public sector: break-up of formerly monolithic units, unbundling of U-form management systems into corporate units, around products, operating on decentralized "on-line" budgets and dealing with one another on an "arm's length";

(h) "Hands-on professional management" in the public sector: active, visible, discretionary control of organizations from named persons at the top who are "free to manage".

III. Public resources mobilization

A. Tax policy

22. In terms of tax policy, countries should ideally aim to set up an efficient and fair tax system which should raise essential revenue without excessive government borrowing, and should do so without discouraging economic activities or deviating radically from tax systems in other countries. Tax reforms should aim at simplicity, equity and comprehensiveness.

23. In reality, many developing countries face severe constraints in choosing tax policy options. In view of the prevalence of cash transactions in their economies, modern means of raising revenue, such as income taxes and consumer taxes, can play only a minimal role. As a rule, taxpayers have limited ability to keep accounts. Statistical and tax offices have difficulty in generating reliable statistics. If nothing else, such lack of data prevents policy makers from assessing the potential impact of major changes in the tax system. It is also difficult to create an efficient tax administration without well educated and well trained staff, especially in the absence of adequate remuneration of tax officials. It is difficult to modernize, e.g., computerize revenue-collecting operations or, in some cases, even to provide efficient telephone and mail services for tax offices.

24. Under those circumstances, the capacity of Governments in many developing countries to affect revenue collection via tax policy changes is very limited. In many of them, tax policy is often the art of the possible rather than the pursuit of the optimal. As a result, many Governments take the path of least resistance, developing tax systems that allow them to exploit whatever options are available rather than establishing rational, modern and efficient tax systems. Marginal changes are often preferred over major structural changes, even when the latter are clearly preferable. That perpetuates inefficient tax structures and negatively impacts the capacity of Governments to mobilize adequate domestic resources to achieve and sustain growth and development.

B. Tax reforms

25. Nevertheless, during the past two decades many countries have undertaken structural modifications in their tax systems. As a rule, those modifications have been an integral part of the overall economic reform programmes. However, too often the reforms have been undertaken "for the wrong reasons". As a result, they did not target systematic improvements to ameliorate and enhance the long-term productivity of the tax system. They were not attached to a coherent strategy for human development. The motivation for that type of reform was provided by the urgent need to increase revenue collection to meet the impending fiscal crises.

In such cases, even if they constituted a part of the financial stabilization package, reforms were undertaken on an ad hoc basis, just to meet an immediate fiscal exigency.

26. In the case of tax reforms undertaken in the framework of a broader economic reform, the goal was to enhance the international competitiveness of the local economies so as to facilitate their successful participation in the process of integration of the global economy. Under such circumstances, the tax system is supposed to constitute one of the market-augmenting institutions. Indeed, in an economy that allocates resources according to market signals, the tax system is required not only to raise the necessary revenues to provide the social and physical infrastructure but, most importantly, to minimize price distortions. Tax reforms that follow the logic of the market become associated both with the obvious ability of the markets to raise human capabilities, but also with the equally obvious potential of the markets for failure, especially in providing public goods or targeting human development.

27. Whatever the reasons to undertake tax reforms, the trend currently prevailing in the world is to lower income and profit tax rates; cut back tax expenditures; and broaden the tax base. In effect, tax reform has now come to mean redistributing of existing burdens downwards. Specific policies may vary from country to country, but observable trends have been towards a more inclusive and less progressive (flatter) income tax with fewer rates, and more reliance on value added tax. Although those measures improved compliance, enhanced equity and reduced distortions stemming from the existence of complex and inefficient tax systems, they may not necessarily contribute directly to implementation of the goals of the United Nations Millennium Declaration. It is difficult to suggest a tax code that would directly support them, but a measure of wealth redistribution via taxation and efficient public spending seems like an idea that is being discarded too lightly and without finding effective alternative solutions.

28. The government capacity that is needed here is mainly the capacity for broad social dialogue. It is a matter of social consensus to establish what kind of market economy fits the local values and tastes. There are many shadows of the fashionable economic and social liberalism. And, even in the quickly integrating world, there is no single prevailing rule as to who in the society should ultimately benefit from economic efficiency gains. Taxes will always play a redistributive role. They do it now. They will do it in future. It is the society and the values it adheres to that are in the centre of making the important decision about the direction of wealth flows. The tax reform only formalizes such decisions.

C. Tax administration

29. An efficient and effective tax administration is a basic prerequisite for a tax system to fulfil its revenue-producing potential. Even the best-designed system is only as good as the administration that implements it. Thus, effective tax administration is the major element of government's capacity to pursue a sound fiscal policy, achieve an optimum tax effort level and establish an appropriate tax structure.

30. The tax laws are bound to fail to achieve their purposes in practice, unless they are efficiently implemented and the taxpayers can be induced and if necessary compelled to comply with them. For that to happen, the tax administration must be able to implement those laws. This requires appropriate staff as well as technical and logistical capacity. Otherwise, the field level reality of the actual incidence of the tax system may be quite different from the original objectives: the taxes may be passed on to those on whom they are not meant to fall, and the distribution of the burden may turn out to be indiscriminate and to exacerbate the inequitable distribution of income.

31. Therefore, Governments that decide to undertake fiscal reforms should also take into account the concomitant tax administration reform. The organizational structure of tax administration should be such as to enable the tax administration to achieve the highest possible degree of voluntary taxpayer compliance, and to administer the tax laws efficiently, effectively and fairly, with the highest degree of integrity. The strategies for tax administration reform are not in doubt:

- The first principle is simplification. For instance, the number of tax brackets in the income tax should be reduced and exemptions and deductions as far as possible eliminated.
- The second principle is the need for a clear strategy of reform rather than ad hoc measures. It is necessary to evaluate the current tax system so

as to understand where revenues presently come from, the uses of administrative resources and how they relate to revenues and the number of cases handled, actual and potential tax bases, and existing problems.

- The third principle is a high level of commitment to reform, particularly at the highest levels, but also embracing all concerned. The way a tax system is viewed depends on the perception of the extent of evasion, fairness, complexity, arbitrariness and the burden of administration on taxpayers.

- The final principle is technical competence on the part of tax administrators and staff of the entire tax system. Competence not only enhances the chances of higher tax collections but also contributes to the trust and confidence of taxpayers.

32. A useful benchmark to measure improvement in tax administration is progress towards closing the compliance gap, i.e., the gap between actual and potential revenues. High levels of non-compliance are caused as a rule by: (a) lack of financial and material resources; (b) poorly qualified and trained staff; (c) ineffective procedures; (d) failure to implement measures that will directly reduce non-compliance; (e) absence of effective taxpayer service; (f) high turnover of technical staff and management; and (g) corrupt practices. When the true amount of revenue due is not collected, the efficiency objectives of the tax structure are not realized, and both the horizontal and vertical equity of the tax structure are compromised.

33. In the context of the United Nations Millennium Declaration, it is worth remembering that efficient and effective tax administration plays a far greater than fiscal role only. Better services to taxpayers, including simpler registration and collection systems; better tax education programmes; consistent ruling and transparent decision-making on tax matters all reinforce efforts aimed at citizenry development. The whole sequence — from the development of tax policy and designing tax reforms to tax administration and from the development of the expenditure side of the public budget to the actual delivery of public services is a valuable civic lesson. It reinforces (or fails to reinforce) the participatory element of the governance structures that are believed to serve best implementation of the United Nations Millennium Declaration goals.

IV. Fiscal policy and public debt

34. Public debt is not a positive or negative factor, per se. It must be seen in the broader framework of fiscal policy. It is best if the complex relationships between factors that lead to budgetary deficits, the decisions to borrow and the cost of borrowing are understood by all concerned. It is best if those who spend borrowed money know that there is a cost to it, and those who borrow money and manage the public debt appreciate the reasons for borrowing and the limitations that debt imposes on broader fiscal policy. Transparency and accountability help to anchor those processes in a well-informed consensus of the ultimate beneficiaries, i.e., the public at large.

35. According to the *World Economic Outlook* (October 2001), the total external debt of the developing countries at the end of 2000 amounted to US$ 2.14 trillion. It was composed of short-term debt of $279 billion and long-term debt of $1.861 trillion. Of that total, official debt amounted to $912.8 billion, debts due to banks to $557.2 billion and other private debt to $670 billion. The debt service payments amounted to $337.8 billion. The aggregate external debt was likely to rise to $2.186 trillion in 2002, with debt service payments of $374.7 billion. Behind those aggregate figures, there are numerous deeply unsustainable debt situations. The United Nations Millennium Declaration recognised that by including as one of its targets the implementation of the enhanced programme of debt relief for heavily indebted poor countries and the cancellation of official bilateral debt in the case of the least developed countries. That call has been repeated by the Monterrey Consensus, the outcome of the International Conference on Financing for Development (March 2002).

36. In view of the publicity that follows unsustainable public deficits and fiscal crises, it is often forgotten that borrowing is a legitimate tool for public resources mobilization. If public debt is properly utilized, it can contribute to economic growth and poverty reduction, and smooth out consumption in response to shocks. Government investments are undertaken in anticipation of future social returns that may or may not take the form of a stream of cash payments. When the social rate of return exceeds the

social opportunity cost of government funds, then the investment is worth undertaking. The social opportunity cost includes the cost of using future taxes to service any debt incurred to finance the investment. The Government also invests in public consumer durable goods for which it may be inefficient to recover the full cost through user fees. Some public sector projects may yield negative cash flow throughout the life of the projects. That does not mean that the government should not borrow to finance such projects. What this implies is that future taxes have to be raised or future transfer payments and future public consumption expenditures have to be cut. That should be by an amount equal, in present value terms, to the initial cost of the investment minus the present value of any future net cash flow generated by the project. Solidarity with future generations is an important value to consider while determining the levels of present-day borrowing.

37. If public debt is inefficiently allocated, the cost of the borrowed external resources can contribute to macroeconomic management problems via high and unsustainable levels of external debt servicing obligations. The external debt burden of many low-income developing countries has increased substantially since the 1970s due to allocation mistakes, adverse terms of trade, wars, natural and man-made disasters. Lack of sustained macroeconomic adjustment and structural reforms, decrease in non-concessional lending, refinancing the policies of creditors as well as inadequate debt management also played a negative role. It should be mentioned here that the misallocation of borrowed financial resources constitutes another breach with the value of solidarity, this time with the contemporaries.

38. There exists a shared understanding of the damage that unsustainable debt burden brings to the economy and society. A truth less well known is that an established capacity of the Government to manage debt should become almost an obligation for any borrowing country. Unfortunately, it is in very short supply, especially where it is most needed. The institutional arrangements for debt management necessarily differ from country to country, but their activities should revolve around the formulation of debt management policies and strategies. They should provide macroeconomic projections and analysis to support policy-making; undertake operations to implement terms of loan agreements; and, maintain loan records (i.e., monitoring and maintaining information on disbursements and debt service payments). Poor debt management has caused many crisis situations. For instance, keeping portfolios of poorly structured debt in terms of maturity, currency or interest rate composition and large and non-funded contingent liabilities have been important factors in inducing or accelerating economic crisis in many countries. Irrespective of the exchange rate regime or whether domestic or foreign currency debt is involved, crises have often arisen because of an excessive focus by Governments on the possible cost savings associated with large volumes of short-term or floating rate debt. That has left government budgets seriously exposed to changing financial market conditions, including changes in the country's creditworthiness, when this debt needed to be rolled over. Foreign currency debt poses particular risks that have to be carefully managed. Excessive reliance on foreign currency debt can lead to exchange rate and/or monetary pressures, if investors become reluctant to refinance it. By reducing risk that stems from poor management of the Government's own portfolio, a dangerous source of instability for the private sector can be removed. Prudent government debt management, along with sound policies for managing contingent liabilities, can make countries less susceptible to contagion and financial risk.

V. Official development assistance

39. By supplementing the domestic efforts in public revenue generation as well as foreign private capital flows, ODA can be critically important in helping developing countries and economies in transition to implement the United Nations Millennium Declaration goals. To do that, it must support strategies that revolve around human development, especially the goal of poverty reduction. It must contribute to generating sustainable, equitable growth. And it must be based on policies and programmes that respect ownership by recipient countries' governments and civil societies.

40. The flow of ODA from Development Assistance Committee countries to developing countries was $51.9 billion in 1998 ($48.3 billion in 1997). In terms of percentage of donor countries' GNP, ODA declined from 0.33 per cent in 1992 to 0.24 per cent in 1999, against the United Nations aid target of 0.7 per cent. As a proportion of the combined GNP of donor countries,

ODA flows to the least developed countries have declined from 0.09 per cent in 1986-87 to 0.05 per cent in 1997. Almost 20 per cent of the ODA commitments by individual DAC members in 2000 were either partially untied or tied; 53.5 per cent were intended for social and administrative infrastructure, such as education, health, population, water supply and sanitation and other social services. Only 1.1 per cent was devoted to actions related to debt management, including payments of non-ODA debt. The measures proposed in recent years to enhance the quality and effectiveness of aid include a focus on medium-term development cooperation, a shift from projects to programmes, and increasing emphasis on policy dialogue, partnership, sound public financial management and participation of all sectors of the economy.

41. The Monterrey Consensus strengthened agreement on the policies required within developing countries to mobilize domestic resources, attract private investment and utilize aid effectively. It reaffirmed the importance of sound policies and good governance to ensure ODA effectiveness, and emphasized country ownership, partnership and harmonization. It also recognized that substantial increases in ODA are required to enable the poorest countries to cut poverty in half and achieve other internationally agreed development goals.

42. In Monterrey, the international community has committed to scale up and intensify their efforts to help developing countries meet the internationally agreed development goals by making sure that aid resources are made available to match the commitment to progress on policy reforms in the developing countries. However, as long as decisions about levels and directions of ODA are taken in the framework of the old developmental paradigm, it is not at all clear if there is a specific capacity that the developing countries can build in order to attract increased ODA flows. Global human development needs compete with strategic economic and political calculations in distributing ODA. And the fiscal policies of the DAC countries themselves often continue to curtail their ability to spend. Be this as it may, the recipient countries owe it to themselves to increase the effectiveness of ODA utilization. They must also take responsibility for good governance and sound economic and social policies. This entails, inter alia, tackling corruption, investing in people and establishing an investment climate to attract private capital.

VI. Conclusions and recommendations

43. The main conclusion of the present analysis is that, in the short term, to the extent that new financial resources are needed, the public sector in the developing countries will have serious difficulties in contributing in a meaningful way to the implementation of the goals of the United Nations Millennium Declaration.

44. Somewhat surprisingly, the main issue seems to be not money but governance. We talk here about dialogue and partnership-building, political will, broad public participation in decision-making, and transparency. We also talk about the public at large becoming the government oversight body in the accountability system, all this in the framework of the new developmental paradigm outlined by the United Nations Millennium Declaration. The importance of the institutional aspect of governance cannot be overestimated either. Policies do not exist if they are not formulated, adopted and implemented. But even the most effective administration, with efficiency increased by ICT technology (e-government) would only produce results that are intended by the political will, which expresses the interest and values of the political coalitions that support the Government.

45. It is encouraging to note that the major donors have left Monterrey with an apparently new understanding of the need to increase international transfers. It is also encouraging that a new spirit of partnership and cooperation seems to be emerging between the recipient countries and the donor countries and institutions. Still, the local governance issue does not seem to go away easily. It matters how broad the participation in those new partnership mechanisms is or how effective the accountability system is that oversees those who participate in the new partnership arrangements.

46. This does not mean that important practical steps cannot be taken in order to build up the financial capacity of the developing countries to implement the goals of the United Nations Millennium Declaration.

47. Perhaps the most important step is to close the gap between the nominal endorsement of the Declaration in its totality, including the development paradigm and goals, and the everyday practice and life in societies and communities the world over. That would require a re-evaluation of the institutions for public dialogue and participation, for transparency and accountability.

48. Another possibility is to invite many more players to be active in the public space — players from the business community and civil society, including individual citizens. Public financial resources are used, inter alia, to buy time and capacities that are privately owned. Creation of a well-regulated public space that would welcome partnerships and initiatives may substitute for some of the financial resources needed.

49. The budgetary process looms as an important area of possible change. Alignment, transparency and accountability seem to be the three key words. The budget may move in the direction of greater alignment with politically established developmental goals and with the fiscal policy and reality. The budget may move into a more open public sphere, where transparency and accountability are seriously practised.

50. In the area of tax revenue generation, in most situations policy reform seems less important than shoring up the tax administrations. That is not to say that tax codes cannot be improved, especially in the area of equitable burden sharing. But tax policies and tax reforms seem vastly under-implemented as a result of weak tax administrations, which has vast negative financial consequences and as mentioned above, comes at a high price by weakening the position of taxpayers as citizens.

51. There also exist important international tax-related matters that the international community can and should act quickly upon. For example, decisions on e-commerce taxation, on double taxation and transfer-pricing can and should reflect the interest of the weaker participants in the global networked economy.

52. Finally, there are important steps that countries can take to improve the efficiency and effectiveness of their public administrations. There exists a menu of technical approaches, also on the fiscal side, that have been tested in the world, and the lessons learned are well known and documented. E-government solutions are multiplying and seem to be on many donors' priority list for technical cooperation. In times of scarcity of financial resources, efficiency can hardly be overestimated as a modality for getting more for less.

Notes

[1] To quote some random estimates: according to the World Bank, meeting the United Nations Millennium Declaration developmental goals by the year 2015 would require doubling current levels of international aid, i.e., some $40-70 billion of new resources per year (see Shantayanan Devarajan, Margaret J. Miller and Eric V. Swanson, *Goals for Development: History, Prospects and Costs*). Estimates of the cost of providing universal primary education by the year 2015 fall between $8 billion (OXFAM estimate) and $15 billion (UNESCO estimate) (see UNESCO, *Monitoring Report on Education for All* (2001)). The International Conference on Freshwater (2001) estimated that global financial needs for investment in the water sector are $180 billion per year, as compared with $70 to 80 billion now (see closing address to the Conference by Heidemarie Wieczorek-Zeul). And in the context of the special session of the General Assembly on HIV/AIDS (2001), it has been estimated that the global campaign against the epidemic needs $7 to 10 billion annually for an effective response in low- and middle-income countries.